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Up Front



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Fight Over Emerald Ownership Proves Gem of a Case

LAW: Attorneys in heavy demand in battle for 840-pound stone.

By **CALE OTTENS** Staff Reporter

Nine times out of 10, **John Nadolenco** would have ignored the email he got in early August. It couldn't be real, he thought.

Someone purporting to represent the Brazilian government was asking Nadolenco, a partner at the downtown L.A. office of law firm **Mayer Brown**, to

represent the country in its quest to gain custody of the Bahia Emerald, an 840-pound behemoth valued at nearly \$400 million.

"When I first heard of it, I was not at all sure it was a legitimate request," Nadolenco said. "I thought it was like those Nigerian prince emails we all get. I kind of looked at it and said, 'Really? An 840-pound emerald?'"

Skeptical, he called colleagues at the firm's Brazil

6+

Number of people claiming to own world's largest emerald.

offices in Rio de Janeiro and Sao Paulo to confirm the request was legit. It was, and Nadolenco in September filed documents in Los Angeles Superior Court asserting the country's claim.

A hearing that could help determine ownership of the massive gem is set for next month, and it could potentially bring closure to a twisted, decade-long saga that could have come straight out of a Dashiell Hammett novel.

For now, the Bahia Emerald remains locked in a

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High Stakes: Commerce Casino's Haig Papaian at no-collection baccarat table.

Good Deal?

Casinos split over wisdom of no-collection games

By **JAMES RUFUS KOREN** Staff Reporter

At not quite noon on a recent Friday, about 200 gamblers crowded around tables at **Crystal Casino** in Compton. Often stacked two and three deep, and reaching over each other to place bets, most are playing what's become a huge draw for local card rooms: no-collection baccarat.

It's the same story 15 miles away at **Commerce Casino**, where most of the 30 no-collection baccarat tables were full a few hours later.

But there's a stark difference between the two clubs: Crystal has bet its future on this game and

others like it; Commerce hopes state regulators will shut the games down for good.

"It's dumb and it's wrong" said **Haig Papaian**, chief executive of Commerce Casino. "I would have thought the state would say it is."

He's referring to so-called no-collection card games, which are relatively new among L.A.'s card rooms. Until recently, clubs charged players a nominal fee – or collection – to play each hand, separate from their wager. But no-collection games, as the name implies, do not charge players that fee – making them indistinguishable

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Yahoo's Search For Office Ends

REAL ESTATE: Internet giant clicks with space in Playa Vista.

By **BETHANY FIRNHABER** Staff Reporter

In a move that could dramatically underscore Playa Vista's emergence as a hub for media and tech companies, **Yahoo Inc.** appears ready to set up shop there.

The company is close to finalizing a lease for 130,000 square feet at **Tishman Speyer's** Collective campus, according to Westside real estate sources.

The Sunnyvale search engine and Web portal is expected to take three of the five buildings on the campus, at 11975, 11985 and 11995 W. Bluff Creek Drive. The buildings, designed by downtown L.A. architecture firm **Shimoda Design Group**, are under construction and should be completed in the spring. Yahoo could move in shortly thereafter.

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Legal Tide Rises Against Utility

WATER: Golden State heading to court to fend off sales to cities.

By **HOWARD FINE** Staff Reporter

Utility operator **Golden State Water** will soon be hip deep in litigation as it battles two Southern California communities trying to take over the company's services – and the treacherous water could get even deeper.

Last month, voters in Claremont overwhelmingly gave the go-ahead for the city to take control of the water system run by Golden State, a private-sector utility subsidiary of **American States Water Co.** of nearby San Dimas. That follows on the heels of another lopsided vote last year in Ojai to have a neighboring

71

Percentage of Claremont voters who want to take over their water system from Golden State.

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Water: Utility Looks to Stem Tide on Takeovers

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water district take control of Golden State's system in the Ventura County town.

While Claremont and Ojai represent a fraction of Golden State's customer base, the company is determined to keep running those systems, fighting the Ojai takeover bid in court and vowing to do the same in Claremont.

If Golden State comes out the loser, more communities could try to oust the utility operator, said **Larry Kosmont**, an L.A. economic development consultant and former board member of water wholesale giant **Metropolitan Water District of Southern California**.

"I expect the move by cities to acquire local private water companies will continue and will likely pick up momentum," Kosmont said. "They will get pushed by their constituents to look at it."

Already, two other communities have fledgling takeover efforts: Los Osos on the Central Coast near San Luis Obispo and Cowan Heights in the foothills above Tustin in Orange County. Activists in all those communities say they're frustrated by rising Golden State water rates that are already higher than rates elsewhere.

But Golden State is hardly a willing seller in any of these cases, so communities that want to run their own utilities need court approval to invoke eminent domain and negotiate a purchase price, setting up perhaps years of legal wrangling.

Big money

Golden State accounts for roughly two-thirds of American States' revenue, which totaled \$472 million last year. The utility serves 21 cities and regions in the state, with roughly 257,000 individual water hookups. (The utility serves many more people, since an entire apartment building or shopping mall can constitute a single hookup.) Together, Claremont and Ojai have nearly 14,000 hookups, or about 5 percent of Golden State's customer base.

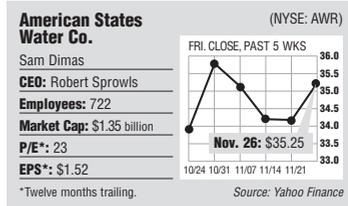
Michael Gaugler, an analyst with Brean Capital in New York who follows American States, said that's too few customers to worry about — for now.

"While the situation with the city of Claremont bears watching, we wouldn't expect the potential loss of 11,000 customers to meaningfully financially impact the company if Claremont is ultimately successful with a condemnation," Gaugler said in a report released after the Claremont vote.

Still, Golden State is fighting to keep those customers. If activists in Ojai or Claremont manage to pull off legal victories, then other communities might jump in with their own efforts. The real impact could be felt if municipal takeover efforts get started in the heart of Golden State's customer base: southern Los Angeles County. Roughly half of the utility's customers are in a swath of territory from Torrance on the west through Norwalk and



Hot Water: Randy Scott, center, and son Clayton gather signatures this summer for a Claremont vote to take over the water district from Golden State Water.



into portions of northern Orange County.

In those areas, there have been scattered incidents of customer discontent over high water prices in communities such as Bell, but no additional effort at municipal takeover — yet.

Activists say this is why Golden State is fighting so aggressively to hold on to its water systems.

"We strongly believe that Golden State is fighting us so vigorously because they know that if we prevail here, the floodgates will open and other communities would be lining up to take over water systems from Golden State," said **Ryan Blatz**, attorney and board member of Ojai Flow, the organization that pushed the municipal takeover effort in that city.

The municipal takeover threat could also be helped from outside. Proponents have received guidance from a national environmental group, **Food & Water Watch** of Washington, D.C., which has a page on its website promoting municipal takeover of private water systems.

Rising rates?

At the root of the takeover attempts is a common complaint: Golden State's rates are

too high, critics claim, and getting higher. Activists in these communities say the California Public Utilities Commission, which regulates private water utilities, has failed to rein in costs. They also say municipal water districts, which don't have to distribute profits to shareholders, can provide the water more cheaply.

"The thing that's aroused all of us is that our water is already more expensive and the increases just aren't going to stop," said **Naida Simpson**, president of **Los Osos Flow**, the organization formed to promote a municipal takeover.

Golden State executives say the activists' promises of lower water rates from municipal providers are fantasy.

"Ojai and Claremont voted on what communities in those areas had promised them," said **Denise Kruger**, senior vice president of regulated utilities for Golden State. "But what the cities have promised is quite different from what the reality is: Rates will go up even more than before."

Kruger said municipal operators would still have to spend increasing sums of money on maintenance and upgrades — and they will have to pay off tens of millions of dollars in bonds used to purchase the systems from Golden State.

She also said Golden State's actual rate increases have been lower than the double-digit hikes activists have claimed.

Water rate changes are complex and vary

widely by region. Activists use one set of figures to argue rates have skyrocketed, while Golden State uses other figures that suggest more moderate increases.

The company is in the process of asking the Public Utilities Commission for rate changes that would start in 2016, ranging from a 3 percent price cut in Rancho Cordova in Northern California to an increase of 4.7 percent in Ojai. A decision from the PUC is not expected until late next year.

Court battle

In Ojai, Golden State challenged the financing behind the Casitas Municipal Water District's \$60 million takeover bid for its water system there. A lower court sided with the water district, but Golden State has appealed.

Meanwhile, in Claremont, where 71 percent of voters last month approved a measure to have Claremont issue \$135 million in bonds to finance a takeover of Golden State's water system, a legal battle is also in the wings.

Speaking to Wall Street analysts on an earnings conference call — coincidentally scheduled for the day after the Nov. 4 vote — American States Chief Executive **Robert Sprowls** said, "We will continue to defend our Claremont system from condemnation."

One of the leaders of the Claremont Flow movement, **Randy Scott**, said Claremont officials had looked into a takeover of Golden State's system several times in the last decade, but opted not to pursue it, "with the hope that things would change." But water rates continued to go up, with Scott saying that the increases are going toward Golden State's focus on maximizing profit and executive compensation.

Golden State's Kruger said that one reason rates have continued to increase is the need for maintenance to prevent the frequency of water main breaks that have plagued Los Angeles.

"Politicians there have been unwilling to raise rates to pay for the maintenance," she said. "We don't have those problems because we are spending the money to keep our system in shape."

She said that while Golden State will continue to fight municipal takeovers, communities such as Los Osos and Cowan Heights might back off if Ojai and Claremont end up facing huge legal and operational costs.

And even if takeovers succeed, Kruger noted that Golden State and its parent, American States, must still be fairly compensated through the eminent domain process.

"While we don't want our business to get smaller and will fight that, if a takeover effort does succeed, shareholders will get their money," she said.



Kruger

Real Estate: Yahoo Catches Wave to Playa Vista

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Terms of the deal were not disclosed, and brokers for both Yahoo and Tishman Speyer declined to comment. Yahoo executives would not be reached.

Should the lease go through as planned, Yahoo will be the second giant Silicon Valley search engine company to embrace Playa Vista, a submarket with large blocks of available space that has quickly established itself as a lower-cost alternative to Santa Monica.

Google Inc. is said to be nearing a deal to buy the cavernous Spruce Goose hangar on Campus Center Drive from downtown L.A. developer **Ratkovich Co.**, as well as a neighbor-

ing 3.3-acre site entitled for office use owned by Dallas real estate firm **Lincoln Property Co.**

It remains unclear exactly how the Menlo Park tech company, which already has about 100,000 square feet in Venice, would use the 319,000-square-foot space that Howard Hughes once used to build the world's largest airplane. The hangar has a pair of side-by-side bays, each stretching the length of two football fields and a ceiling more than seven stories high.

Should Yahoo and Google trade Santa Monica and Venice for Playa Vista, they would join the ranks of prominent media, entertainment and technology companies already in the vicinity, such as **TMZ**, **72andSunny**, **Microsoft Corp.**, **Rubicon Project**, **EdgeCast Networks**, **Facebook Inc.**, **Belkin International** and

Google-owned **YouTube**, to name just a few.

Other advertising and media companies, including **Chernin Group**, **Fullscreen Inc.**, **Omnnicom Group Inc.**, **WPP** and **GroupM**, are also said to be actively looking for space in Playa Vista.

"Years ago Playa Vista was a secondary location to Santa Monica, but now it's become a more desirable location for media and tech companies because of the quality of the environment and the companies that are down there," said **David Toomey**, a principal at tenant brokerage firm **Cresca Partners of Los Angeles Inc.** who does a lot of work in Playa Vista but was not involved in the Yahoo deal. "Media and



Lease Deal: Collective in Playa Vista.

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